

Message Text

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E.O. 11652: N/A

TAGS: ECON, BENC, SA

SUBJECT: INFRASTRUCTURE MANAGEMENT FOR JUBAYL INDUSTRIAL SITE

SUMMARY: BECHTEL CORPORATION APPEARS ON THE VERGE OF SIGNING A CONTRACT FOR THE MANAGEMENT OF INFRASTRUCTURE DEVELOPMENT AT THE MASSIVE INDUSTRIAL COMPLEX NOW PLANNED FOR JUBAYL. NOTHING HAS BEEN SIGNED TO DATE, AND PREMATURE PUBLICITY MIGHT WELL DEMAGE BECHTEL'S CHANCES, BUT THE ROYAL COMMISSION FOR JUBAYL HAS UNANIMOUSLY SELECTED BECHTEL AS THE FIRM WITH WHICH TO NEGOTIATE. TOTAL COSTS FOR THE INFRASTRUCTURE ALONE COULD RUN AS HIGH AS \$15 BILLION. END SUMMARY

1. WE HAVE LEARNED THAT BECHTEL CORPORATION HAS BEEN SELECTED (UNANIMOUSLY) BY THE ROYAL COMMISSION FOR JUBAYL AND YENBO AS THE COMPANY WITH WHICH THE COMMISSION WILL NEGOTIATE A MANAGEMENT CONTRACT FOR JUBAYL. THE INFRASTRUCTURE AT THE INDUSTRIAL SITE ORIGINALLY CALLED FOR EXPENDITURES OF SOME \$5 BILLION ON SITE PREPARATION, ROADS, TELECOMMUNICATIONS, POWER, WATER FOR COOLING, DESALINATION, POWER GENERATION, WASTE TREATMENT, ETC. COSTS HAVE ESCALATED CONSIDERABLY SINCE THE ORIGINAL ESTIMATES WERE MADE AND ARE NOW LIKELY TO RUN AS HIGH AS \$15 BILLION BY MANY ESTIMATES. SOME 9 MAJOR PROJECTS ARE TO BE LOCATED IN JUBAYL INCLUDING PETROCHEMICAL PLANTS, REFINERIES, A FERTILIZER PLANT, AN ALUMINUM SMELTER AND A STEEL REDUCTION

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PLANT. TOTAL COST OF THOSE FACILITIES, ORIGINALLY

ESTIMATED AT SOME \$10 BILLION, WILL PROBABLY EXCEED \$30 BILLION IF FINALLY UNDERTAKEN.

2. BECHTEL HAS PREPARED A MASTER PLAN FOR THE JUBAYL INFRASTRUCTURE WHICH WAS PRESENTED TO THE MINISTRY OF PLANNING AND THE ROYAL COMMISSION. THE PLAN HAS NOT, HOWEVER, BEEN ACCEPTED. THE COMMISSION HAS ASKED QUESTIONS SUCH AS LOCATION OF VARIOUS FACILITIES AND TITLE TO LAND IN QUESTION, WHICH WERE OUTSIDE THE SCOPE OF THE ORIGINAL STUDY. BECHTEL HAS NOW ASKED PETROMIN AND ARAMCO FOR DETAILS ON LAND TITLES, AND IS STRUGGLING TO PRESENT ANSWERS TO VARIOUS OTHER QUESTIONS, AND TO POINT OUT ALTERNATIVES. IT IS INTERESTING TO NOTE THAT THE BECHTEL PLAN RECOMMENDED THAT THE SITE INCLUDE POWER GENERATION AND WATER DESALINATION, ALTHOUGH IT ADNOWLEDGED THAT OTHER SAUDI AGENCIES WERE PREPARING TO CONSTRUCT SAME ELSEWHERE. ACCORDING TO BECHTEL SOURCE, POTENTIAL INVESTORS ARE QUITE CONCERNED ABOU THE PROSPECTS OF HAVING THEIR FRESH WATER AND POWER SOURCES LOCATED 30 KILOMETERS SOUTH OF JUBAYL AND UNDER THE ADMINISTRATION OF THE SAUDI WATER CONVERSION CORPORATION, HEADED BY PRINCE MOHAMMED BIN FAISAL.

3. BECHTEL HOPES TO BE ABLE TO SIGN AT LEAST A LETTER OF INTENT IN THE NEAR FUTURE ON THE BASIS OF THE UNANIMOUS APPROVAL OF THE COMMISSION. THEY ARE CURRENTLY NEGOTIATING WITH THE NEWLY APPOINTED EXECUTIVE SECRETARY OF THE COMMISSION, FAROUK AKHDAR (OF THE MINISTRY OF PLANNING). (ACCORDING TO OUR SOURCE, THE ROYAL COMMISSION APPEARS TO HAVE CONSIDERABLE AUTHORITY, BUT WILL PROBABLY STILL NEED TO REFER MAJOR ISSUES BACK TO THE COUNCIL OF MINISTERS AND OBTAIN ROYAL APPROVAL FOR ACTIONS TAKEN.) BECHTEL IS HOPEING TO CONVINCE THE SAUDIS TO ABANDON THEIR INSISTENCE THAT FIRMS SIGN FIXED PRICE CONTRACTS. THEY BELIEVE INFLATION IS SO HIGH IN SAUDI ARABIA AT THIS TIME THAT NO MAJOR FIRM COULD COMMITT ITSELF TO SUCH A CONTRACT. OF COURSE, THE SAUDIS ARE SOMEWHAT RELUCTANT TO UNDERTAKE A CONTRACT IN WHICH FEES WOULD BE BASED ON THE COST OF PROJECTS, BECAUSE OF SUSPICION THAT BECHTEL MIGHT DELIBERATELY SELECT HIGH COST

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PROJECTS. THE CONTRACT MANAGER IN JUBAYL WILL BY NECESSITY HAVE CONSIDERABLE LATITUDE IN SELECTION OF FIRMS AND VARIOUS OTHER NECESSARY DECISIONS. COMMISSION MEMBERS ARE ALL VERY ACTIVE IN THE SAUDI GOVERNMENT, AND DIFFICULT TO BRING TOGETHER UNDER ONE ROOF. THEY ARE ALSO TECHNICALLY UNQUALIFIED, AND HAVE NO BACKUP STAFF SO THEY WILL PERFORCE BE DEPENDENT ON THEIR ADVISOR.

4. IF BECHTEL GETS THIS CONTRACT, AS IS ALMOST CERTAIN, IT WILL BE A MAJOR STEP FORWARD FOR AMERICAN FIRMS. THE POSITION OF CONTRACT MANAGER AND/OR CONSULTANT IS ALL IMPORTANT IN WRITING OUT SPECIFICATIONS AND IN SETTING THE TOME FOR DECISION MAKING. SELECTION OF AN AMERICAN FIRM WILL BE AN MAJOR ADVANTAGE FOR OTHER U.S. FIRMS BIDDING ON THE \$5 BILLION TO \$15 BILLION IN INFRASTRUCTURE PROJECTS AT JUBAYL. WE SHOULD EMPHASIZE, HOWEVER, THAT THIS CONTRACT IS NOT YET IN THE BAG. ONE OF BECHTEL'S COMPETITORS WAS TOLD BY FAROUK AKHDAR THAT HE COULD NOT RESPOND TO THE QUESTION OF WHETHER OR NOT BECHTEL HAD THE CONTRACT, NOTHING HAS BEEN SIGNED AND MUCH NEGOTIATING REMAINS TO BE COMPLETED. THE ABOVE SHOULD ALSO BE CONSIDERED HIGHLY PRIVILEGED INFORMATION, AND EMBASSY REQUESTS IT BE HELD CLOSELY. PREMATURE PUBLICITY COULD EASILY DERAIL THIS OTHERWISE PROMISING VENTURE.

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